

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Consumer Programs Branch**

**RESOLUTION T-17456
November 06, 2014**

R E S O L U T I O N

RESOLUTION T-17456. Approval of the California Teleconnect Fund Administrative Committee Fund Budget for Fiscal Year 2015-16 (July 1, 2015 through June 30, 2016) to Comply with the Requirements of Public Utilities Code Section 273(a), an Increase in the California Teleconnect Funding Cap, and an Increase in the Total Discounts Available to Community Colleges.

SUMMARY

This Resolution adopts the following provisions for the California Teleconnect Fund (CTF) Program:

- (1) A budget of \$148,086,714 for Fiscal Year (FY) 2015-16;
- (2) An increase to the CTF funding cap to \$148,086,714; composed of \$145,065,000 for Local Assistance, \$2,945,000 for State Operations, \$76,000 for Financial Information System for California and \$714 for State Controller.
- (3) A cap of \$11,555,014 for CTF discounts available to community colleges in FY 2015-16.

BACKGROUND

In Decision (D.) 96-10-066, the Commission created the California Teleconnect Fund (CTF) program, effective October 25, 1996, to provide discounted rates for advanced telecommunications services for qualifying schools, libraries, government-owned health care providers, and community based organizations (CBOs).

In May 2006, the Commission opened Rulemaking (R.) 06-05-028 to conduct a comprehensive review of the Telecommunications Public Purpose Programs, including

the CTF. Subsequently, the Commission issued D.08-06-020 on June 12, 2008. The Commission found that the CTF was successfully enhancing universal service goals, and ordered several key changes to the CTF program. These changes included the removal of CTF tariff requirements [for all carriers that provide CTF-eligible services on a detariffed or non-regulated basis], and the inclusion of California's community colleges, California Telehealth Network participants, and CBOs authorized to provide 2-1-1 Information and Referral Services.¹

On January 31, 2013, the Commission on its own motion opened Rulemaking 13-01-010 to determine whether the CTF is fulfilling its purpose, and whether the CTF's current structure and administrative processes are adequate to further the program's goals.² In this rulemaking, the Commission will review the program goals, participant eligibility, eligible services, service provider eligibility, and budget and administrative rules. The Rulemaking is currently still open and may affect the budget for FY 2015-16.

The CTF program is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. The current CTF surcharge rate is 0.93%.³

CTF Budget

Public Utilities (PU) Code Sections 270-281 were enacted in October 1999. Section 280(d) requires that the money appropriated from the CTF Administrative Committee Fund be used only for the CTF program.⁴

The CTF Administrative Committee (CTF-AC) is required to submit a proposed budget to the Commission on or before June 1 of each year.⁵ The Committee submitted a letter, dated July 21st, 2014, to the Commission's Executive Director seeking approval of a proposed budget of \$118,942,000 for FY 2015-16. Details of this proposed budget are set forth in Appendix A.

¹ CBOs providing 2-1-1 Referral and Information Services must be authorized by the Commission through a resolution process.

² R.13-01-010 Order Instituting Rulemaking to Conduct a Comprehensive Examination of the California Teleconnect Fund.

³ Resolution T-17442 revised the surcharge from 0.59% to 0.93% effective October 1, 2014.

⁴ §280(d) Moneys appropriated from the California Teleconnect Fund Administrative Committee Fund to the commission shall be utilized exclusively by the commission for the program specified in subdivision (a), including all costs of the board and the commission associated with the administration and oversight of the program and the fund.

⁵ California Public Utilities Code §273; CTF-AC Charter s4.1(a).

CTF Funding Cap

D. 96-10-066 set the initial annual funding of the CTF at \$50 million. The CTF funding cap can, if necessary, be raised through a Commission resolution at any time.⁶ On July 12, 2001, the Commission issued Resolution T-16542 to increase the fund's cap from \$50 million to \$55 million, effective July 1, 2002. The funding cap increase was based on projections of increased CTF participation, as well as the inclusion of new high speed and high cost services in the program.

Subsequently, as a result of program expansion over the years and, most recently, to factors such as the education initiatives set forth in the Governor's Budget, and changes to the Federal E-rate program, the CTF program has grown tremendously.

On October, 03, 2013, the Commission approved Resolution T-17414, which increased the funding cap from \$92,429,000 to \$107,983,000.

Community College Cap

Upon expanding the CTF to include community colleges, the Commission placed a cap on the total CTF discounts that could be granted to community colleges.⁷ The purpose of the cap is to ensure that the eligibility of community colleges does not negatively impact the other CTF program participants.⁸ The Commission originally set the cap at \$7,200,000 in 2007;⁹ the cap is adjusted annually based on the Western Consumer Price Index.¹⁰

Table 1: Cap on the total CTF discounts received by Community Colleges.

Fiscal Year	2012-13	2013-14	2014-15
Community College Cap	\$10,865,000	\$11,167,000	\$11,379,000

⁶ D.08-06-020 at 23. FN.96.

⁷ Id., Conclusion of Law 7.

⁸ Id. at 28.

⁹ Id. at 28 and Conclusion of Law 7.

¹⁰ Source: Western Consumer Price Index <http://www.bls.gov/ro9/cpiwest.htm>.

NOTICE/PROTESTS

Notice of the CTF-AC's proposed budget for FY 2015-16 was published in the Commission's Daily Calendar on October 03, 2014. No parties submitted protests.

DISCUSSION

Department of Finance (DOF) Audit

In 2012, auditors from the Department of Finance (DOF) conducted a budget process performance audit of six public purpose programs administered by the Communications Division (CD), including the CTF. The DOF's audit report contained several recommendations and the Commission has incorporated those recommendations in the preparation of the budget.

State Operations

State operation expenses include categories such as: CPUC staff costs, staff travel, the administrative committee per diem and travel, marketing and outreach, audits, data processing automation, interagency and cost allocation expenses. The forecast developed for FY 2015-16 resembles the anticipated level of expense forecast for FY 2014-15, therefore CD determined it is reasonable to use the FY 2014-15 adopted expense level for FY 2015-16.

Beginning July 1, 2014 CPUC implemented a new costs allocation plan that directs how CPUC's administrative charges will be allocated to the sixteen special funds the agency administers, as well as expenses charged to grants. Cost allocation expenditures (sometimes referred to as indirect charges) include Administrative Services salaries and operating expenses (CPUC Accounting and Budget Offices, Business Services, Contracts, HR and IT), facilities operations (rent, security and utility expenses), as well as Executive Division, Administrative Law Judge, and a portion of shared, legal expenses. Using the new cost allocation plan methodology administrative expenses are allocated to funds primarily on a Personnel Year (PY) basis; funds that support more staff proportionally have more CPUC indirect charges. CPUC initiated development of a new cost allocation plan as a corrective action in response to a 2013 Department of Finance audit that highlighted the agencies lack of an updated, comprehensive, and methodologically consistent plan for allocating indirect charges to special funds and grants. As a result of implementing the new plan, some CPUC special funds received higher proportions of costs allocation than had been allocated in previous years due to the changes in methodology related to defining administrative cost "pools" and PY

analysis. Indirect charges will be built in as line-items into all funds as part of FY 2015-16 budget proposals.

Local Assistance

The majority of the CTF budget is comprised of carrier claim payments. The Commission reimburses carriers for discounts given to CTF participants. The Communications Division's (CD) carrier claims projections consider a number of factors; including carriers' claim forecasts, historical claims data and external factors such as the Governor's Education initiatives and the Federal E-rate program.

For the FY 2015-16 budget, CD is proposing an augmentation of \$40.460 million to the FY2014-15 Local Assistance budget of \$104.605 million. The main driver of this augmentation is in response to external factors such as the education initiatives set forth in the Governor's FY 2014-15 Budget and changes in the E-rate program, the federal schools and libraries counterpart to the CTF program, as well as for general program growth.

The Governor's FY 2014-15 Budget authorized improvements in internet access and associated infrastructure for the education sector. These initiatives will position California students to successfully compete in the global economy. The improvement programs will continue for FY 2015-16. When qualifying schools, libraries, and community colleges, which are also CTF participants, purchase CTF eligible services such as internet access under the Governor's initiatives, there will also be a corresponding draw on the CTF. The CPUC requested estimates from the respective entities in the education community on the impact of their technology programs on CTF in FY 2015-16.

- The Governor's FY 2014-15 Budget provides libraries a \$3.25 million appropriation, including \$2.25 million for connection to a statewide high speed internet backbone (CENIC) and \$1 million for infrastructure. (<http://www.ebudget.ca.gov/FullBudgetSummary.pdf>, p14; FY 2014-15 Budget Item # 6120-215-001) Connecting all libraries to the high speed internet backbone requires paying CENIC backbone fees as well as adding /upgrading circuits to connect to all the libraries to CENIC. Both services are CTF-eligible. The California state library projects a \$4.35 million increase in CTF discounts.
- The Governor's FY 2014-15 Budget provides schools a \$26.7 million appropriation to assist local schools most in need of the required technology to participate in Common Core Computer Based Adaptive Testing. (<http://www.ebudget.ca.gov/FullBudgetSummary.pdf>, p23; FY 2014-15 Budget

Item # 6110-182-001) The schools forecast \$5 million will be spent on infrastructure and the remainder on ongoing internet access services, resulting in a projected increase of \$6.6 million in CTF discounts.

- The Governor's FY 2014-15 Budget provides community colleges a \$20.651 million appropriation for its Telecommunications and Technology Services program. (<http://www.ebudget.ca.gov/FullBudgetSummary.pdf>, p21; Budget Item # 6870-101-0001) This is an increase of \$6 million over the prior level, which can be used for various activities. The community colleges forecast an increase of \$2.15 million in CTF discounts.
- The anticipated impact of the three education technology programs on the CTF is \$13.1 million.

The federal E-rate program is phasing out voice service over a five year period beginning with FY 2015-16. Each year, an entity's E-rate percentage discount is reduced by 20%. Since CTF discounts are applied after E-rate discounts, the remaining amount that is eligible for CTF discounts would be higher under the phase out. Applying the historical relationship between voice discounts and total discounts and the statewide average E-rate discount to the carriers' FY 2015-16 forecast, the CPUC projects this federal action is expected to increase the CTF by \$3.614 million. Furthermore, E-rate is eliminating wireless data plans, absent a demonstration of cost-effectiveness. The Statewide average E-rate discount is approximately 70%. CTF pays 50% on the remaining 30% (100%-70%) or 15% of the full price. Therefore without any E-rate discount and if the CTF provides a 50% discount on the full price of the service, the discounts would be more than three times the carriers' current forecast. The CPUC projects the CTF would need to increase by \$18.142 million due to this federal action. The total impact of the E-rate changes on CTF is forecasted to be \$21.756 million.

CTF program continues to grow with new participants and higher demand for advanced telecommunications services, especially by schools for higher bandwidth services, which are likely to be used for the Common Core Computer Based Adaptive Testing. Carriers' forecasts of FY 2015-16 CTF discounts indicate a 5% increase over FY 2014-15 discounts, approximately \$5.6 million increase to the fund. The 5 % increase is modest compared to the historical growth in actual expenses. For example, actual expenditures grew 16% from FY 2012-13 to FY 2013-14.

0840 State Controller (State Operations) Costs

This item appropriates funds for the State Controller's Office. For FY 2015-16, staff used the most recent amount obtained from the detailed fund balance report for FY 2013-14, which is \$714.

8880 Fiscal Information System for California

This item appropriates funds for the Financial Information System for California (FI\$Cal). FI\$Cal is an information technology (IT) project managed by a partnership of Department of Finance, the State Treasurer's Office, the State Controller's Office, and the Department of General Services. The purpose of this project is to create and implement a new statewide financial system. The budget For FY 2015-16 is \$76,000 as estimated in the governor's budget for FY 2014-15.

Total Program Expenses

Total forecasted expenses for FY 2015-16 are \$148,086,714,000. This is an increase of about 37% compared to the last year's budget. Appendix A compares CD's forecasted FY 2015-16 expense budget versus the FY 2014-15 expense budget adopted by the Commission. The CTF program has increased tremendously over time. CD staff believes that the rise in total claims expense is due to external factors such as the Governor's Education initiative, higher demand by schools and libraries, changes to the e-rate program and CBO outreach efforts. CD believes the program will continue to grow through FY 2015-16.

CD Proposal vs. CTF-AC Proposal

CD's budget recommendation for FY 2015-16 is \$148,086,714,000, which is 25% higher than Administrative Committee's proposed budget of \$118,942,000. CD based its estimates on more recent data.

COMMENTS

In compliance with PU Code § 311 (g), the Commission e-mailed on October 03, 2014, a notice letter informing telecommunications carriers serving CTF customers, members of the CTF-AC, and the parties of records in R.13-01-010 of the availability of this revised draft resolution for comments, as well as the availability of the conformed resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov.

Comments were received from the Office of Ratepayer Advocates (ORA) on the Draft Resolution. ORA urges the Commission to review the eligibility requirements of existing services, including voice. ORA also asks the Commission to ensure that the proposed cost projections for libraries and schools are consistent with current program eligibility requirements so that the CTF program achieves California's universal service goals in a fiscally prudent manner and consistent with the public benefit.

The issues raised by ORA are currently being examined by the Commission in R.13-01-010. Therefore, it would not be prudent for CD to prejudge these issues in this resolution. In a recent Department of Finance (DOF) audit of the CTF program, DOF recommended that future budgets be developed based on known factors and not on presumptions of possible changes. CD also worked closely with the Community College Chancellor's Office, the K-12 HSN and the CIO of the California State Library to estimate only CTF-eligible services that would be included in the CTF budget augmentation for FY 2015-16.

We are mindful that the issues being examined in R.13-01-010 may affect the budget for FY 2015-16. CD will closely monitor R.13-01-010 and take appropriate action to ensure that the CTF budget is sufficient to meet the program expenditures in furtherance of universal service goals without placing undue burden on ratepayers.

SAFETY ISSUES

This Resolution ensures adequate funding, at an appropriate level, to support the CTF program budgetary expenditures. The CTF program helps to promote universal service by subsidizing advanced communications services for qualified institutions. By promoting use of advanced communications services, those advanced services are available during emergencies, enhancing public safety. CTF provides discounts to 211 providers, who play a vital and important role in promoting public safety during emergency and non-emergency situations.

FINDINGS

1. The CTF was adopted in D.96-10-066, effective October 25, 1996, to provide discounted rates for advanced telecommunications services for qualifying schools, libraries, government-owned health care providers, and community based organizations.
2. Rulemaking 13-01-010 will review program goals, participant eligibility, eligible services, service provider eligibility, and budget and administrative rules. The Rulemaking is currently still open and may affect the budget for FY 2015-16.
3. Public Utilities Code Sections 280(d) requires that the money appropriated from the CTF funds be used only for the purpose of the program.

4. The CTF funding cap can, if necessary, be raised by Commission resolution at any time. On July 12, 2001, the Commission issued Resolution T-16542 to increase the fund's cap from \$50 million to \$55 million.
5. On October 03, 2013, the Commission issued Resolution T-17414 to increase the fund's cap from \$92,429,000 to \$107,983,000.
6. D.08-06-020 limits the participation of community colleges in the CTF program to \$7.2 million per year, adjusted annually based on Western-CPI.
7. In a letter dated July 21, 2014, the CTF Administrative Committee submitted to the Executive Director a proposed budget of \$118,942,000 for Fiscal Year 2015-16.
8. The California Teleconnect Fund Administrative Committee's proposed budget for Fiscal Year 2015-16 was noticed in the Commissions Daily Calendar of October 03, 2014.
9. In 2012, the Department of Finance conducted a budget process performance audit of six public purpose programs administered by the Communications Division including the CTF.
10. Final appropriations for 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2015 is approved by the Legislature and the Governor.
11. Communications Division's proposed FY 2015-16 program budget of \$148,086,714, composed of \$145,065,000 for Local Assistance, \$2,945,000 for State Operations, \$714 for 0840 State Controller (State Operations) and \$76,000 for 8880 Financial Information System for California (State Operations) is reasonable and should be adopted.
12. The FY 2015-16 budget adopted today is subject to final appropriations adopted in the Budget Act of 2015 for 8660 Public Utilities Commission (State Operations and Local Assistance), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).
13. The appropriations adopted in the Budget Act of 2015, if different from the adopted FY 2015-16 budget, will supersede the FY 2015-16 Budget adopted in this resolution.

14. In compliance with PU Code § 311 (g), the Commission e-mailed on October 03, 2014, a notice letter informing telecommunications carriers serving CTF customers, members of the CTF-AC, and the parties of records in R.13-01-010 of the availability of this revised draft resolution for comments, as well as the availability of the conformed resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov.

THEREFORE, IT IS ORDERED that:

1. The program budget for the California Teleconnect Fund Administrative Committee Fund for Fiscal Year 2015-16 in the amount of \$148,086,714; composed of \$145,065,000 for Local Assistance, \$2,945,000 for State Operations, \$714 for 0840 State Controller (State Operations) and \$76,000 for 8880 Financial Information System for California (State Operations) is adopted.
2. Communications Division staff is authorized to modify the FY 2015-16 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2015 for 8660 Public Utilities Commission (State Operations and Local Assistance), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

Resolution T-17456
CD/KCH

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 6, 2014, the following Commissioners voting favorable thereon:

/s/ Paul Clanon

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
MICHAEL PICKER
Commissioners

Resolution T-17456
CD/KCH

Appendix-A

APPENDIX A

California Teleconnect Fund Program Budget
Fiscal Year 2015-2016:: July 1, 2015 through June 30, 2016
(Numbers in Thousands)

		FY 13-14	FY 14-15	FY 15-16	FY 15-16
		Resolution T-17377	Resolution T-17414	Submitted by AC	Proposed by CD
A	Local Assistance				
1	Carrier Claims	<u>\$86,646</u>	<u>\$104,605</u>	<u>\$115,537</u>	<u>\$145,065</u>
	Sub Total	\$86,646	\$104,605	\$115,537	\$145,065
B	State Operations				
1	CPUC Direct Dtaff Costs	\$1,112	\$888		
2	AC-Per Diem	\$26	\$16		
3	AC- Special Needs Accomdation	\$8	\$8		
4	Interest for Untimely Payment	\$50	\$0		
5	Staff Travel Costs	\$0	\$6		
6	Marketing and Outreach	\$1,400	\$500		
7	Audits	\$750	\$678		
8	Data Processing Automation	\$2,148	\$38		
9	Pro-Rata Interagency	\$289	\$811		
10	Cost Allocation	<u>\$0</u>	<u>\$0</u>		
	Sub Total	\$5,783	\$2,945	\$2,972	\$ 2,945
C					
1	8860-0493 Public Utilites Commission (Local Assistance and State Operations)	\$92,429	\$107,550	\$118,509	\$148,010
2	0840 State Controller	\$0	\$10	\$10	\$1
3	8880 Financial Information System for California	\$423	\$423	\$423	\$76
	<u>TOTAL PROGRAM BUDGET</u>	<u>\$92,852</u>	<u>\$107,983</u>	<u>\$118,942</u>	<u>\$148,087</u>

End of Appendix A